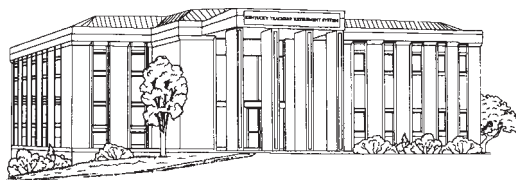


KTRS NEWSLETTER

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

ACTIVE MEMBER EDITION

April/May 2004



WHAT'S INSIDE!

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Legislative
Session



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Elected



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2004 LEGISLATIVE SESSION

The 2004 Regular Session of the General Assembly adjourned on April 13, 2004. During the Session, important retirement system legislation, such as KTRS's House Bill 434, was enacted into law. A summary of the highlights of the 2004 legislation is set forth below. Unless noted otherwise, these legislative changes become effective on July 1, 2004.

Change in Funding Formula for Medical Insurance Fund

For the retirement system and its members, the single most important achievement of the 2004 General Session was the enactment of House Bill 434 with its change in the funding formula for the medical insurance fund. This critical piece of legislation will permit KTRS to ask the Governor and General Assembly each budget biennium for an additional state contribution necessary to continue medical coverage at current levels. The medical insurance program is a "pay-as-you-go" plan with contributions from members matched by the state being the basic formula for funding this important benefit. The shortcoming of this formula was becoming clearly evident as the ratio of active to retired members began to dramatically shrink with increasing retirements in the "Baby Boomer" generation. Soaring medical costs, particularly prescription drug costs, are another reason that the current funding formula is no longer adequate to properly maintain the level of medical insurance currently being provided to retired members. With the enactment of House Bill 434, KTRS will now have the statutory authority it needs to add the base funding formula to fund medical benefits for retirees when making budget requests each biennium. It will still be up to the Governor and the General Assembly to approve the additional necessary funding in the budget each biennium. It is important to note that the medical benefit for retired teachers is not extraordinary, it is the same benefit promised other public retirees such as school bus drivers, school cafeteria workers, policemen, firemen, state employees, and legislators.

Cost of Living Adjustments

In addition to the permanent 1.5% Cost of Living Adjustment (COLA), KTRS requests funding in the budget for "ad hoc" COLAs to help members' retirement allowances keep pace with inflation. For the coming biennium, KTRS requested ad hoc COLAs of 0.8% for fiscal year 2004-2005, and 0.7% for fiscal year 2005-2006. If they had been approved by the Legislature, these ad hoc COLAs, added to the permanent 1.5% COLA, would have provided members with a total COLA of 2.3% for fiscal year 2004-2005, and 2.2% for fiscal year 2005-2006. As you are probably aware, the General Assembly was unable to agree on a budget during the 2004 General Session even though both the House and the Senate versions contained funding for ad hoc COLAs. As a result, there is currently no statutory funding or authority to provide these COLAs.

It is hoped that a budget containing ad hoc COLAs can be adopted by a Special Session of the General Assembly prior to the July 1, 2004 date that retiree COLAs are applied. In the event no budget is adopted prior to July 2004 in Special Session, then it is hoped that the Governor's spending plan would then provide the necessary funding for the ad hoc COLAs. KTRS will continue to monitor this issue closely and urge funding for the ad hoc COLAs with both the Governor and the Legislature. Without proper authority, either through a passed budget or inclusion in the Governor's spending plan, the COLAs awarded in July 2004 will be the base COLA of 1.5%.

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ROBERT M. CONLEY

Elected to Fill Board Vacancy

The Board of Trustees recently elected Robert M. Conley of Paintsville to fill the lay trustee position on the KTRS Board that became vacant due to the retirement of Earle V. Powell. The Board selected Mr. Conley from among five nominees for the position. The appointment is for the remainder of Mr. Powell's term which expires June 30, 2006. Mr. Conley was first elected to the Board in 1986 and brings a variety of experience in investment and insurance services to the Board of Trustees.

Upcoming KTRS Board of Trustees Election

The Teachers' Retirement System is governed by a nine member Board of Trustees. Two members are ex-officio members, the Chief State School Officer and the State Treasurer. The remaining seven trustees are elected by the retired and active membership. Elections are held in May of each year to fill either one or two positions on the Board. Positions are held for four year terms and the elections are staggered. This May the membership will be electing an active teacher trustee.

The candidates for the active teacher position are Steve Hoskins, the incumbent from Wickliffe, and Zella Wells, from Paintsville.

By this time, each retired and active KTRS member should have received a ballot with information about the candidates. The ballot itself has been simplified to save costs. Retired members will receive a yellow ballot and active members will receive a blue ballot. Just select your candidates, tear along the perforation, and drop it in the mail. Postage is prepaid. You may return your ballot any time during May, but no later than May 31, 2004. The Chief State School Officer is responsible for counting the ballots.

All members are urged to review the qualifications of each candidate and cast their ballot for the candidate in each category that they feel has the best qualifications to be an effective member of the Board of Trustees. The results of the election will be announced in the next publication of the 2004 KTRS newsletter.

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Modified Critical Shortage Program

The budget bill enacted during the 2003 General Session provided for a temporary retire-and-return-to-work program similar to the former critical shortage program. The budget bill's version of the critical shortage program is scheduled to sunset effective June 30, 2005. House Bill 434 replaces the budget bill program with a return-to-work program that is similar, except that the local school superintendent will determine when a critical shortage exists and whether there are any other qualified applicants for the job. Furthermore, unlike the budget bill's version of the critical shortage program, the replacement program does not contain any sunset date upon which the program will automatically expire. Retired members returning to work under the critical shortage program contribute to the retirement system and earn post-retirement service credit that, if they vest, will pay them a second retirement allowance.

Alternative Break-in-Service Requirements

Retired members who wish to return to work in a KTRS-covered position are required to have separated from employment for twelve months if returning to work on a full-time basis for the same employer, and for three months if returning to work full-time for a different employer or part-time for the same employer. House Bill 434 provides alternative breaks-in-service under which a retired member must have a minimum two-month break in service plus the member forfeiting his/her retirement allowance for a period that would equal, when added to the two-month break in service, the number of months currently required for breaks-in-service. For example, a retired member would be able to return to work full-time for the same employer after a break of two months followed by the member forfeiting his/her retirement allowance for the ten months next succeeding the two-month break. Or, that same member could experience a six-month break in service followed by forfeiting the retirement allowance for the next succeeding six months. A retired member returning to work for the same employer on a part-time basis or a different employer on a full-time basis could do so after a break of two months followed by forfeiting the member's retirement allowance for the next succeeding month.

Tax-Deferred Installment Payments

House Bill 434 provides the necessary statutory authority to permit KTRS to ask the Internal Revenue Service to allow members to purchase service credit by installment payments on a tax-deferred basis. Currently, only lump sum purchases of service credit may be made on a tax-deferred basis. With this necessary statutory authority, KTRS will ask the IRS for a private letter ruling approving tax-deferred installment payments. Subject to approval by the IRS, members will be able to purchase service credit on

2004 Legislative Session continued on page 3 ...

an installment basis through payroll deductions that are made before federal and state taxes are applied.

Out-of-State Teaching Service

Almost all service credit purchases must be made at full actuarial cost. Out-of-state teaching service is an exception. The current cost formula can result in widely varying costs for members purchasing this service depending on several variables. The issue of service credit purchases at less than full actuarial cost was recently a specific concern of the IRS when the retirement system was attempting to obtain a private letter ruling authorizing tax-deferred transfers from Kentucky Public Employees Deferred Compensation Authority to KTRS. The IRS did not approve tax-deferred transfers for purchases of service credit at less than full actuarial cost. Accordingly, members may not use tax-deferred funds to purchase out-of-state teaching service. Given the inequity of the current cost formula and with due regard to the concerns of the IRS, out-of-state teaching service will, effective July 1, 2005, be set at full actuarial cost as are most other types of service credit purchases. If you have out-of-state teaching service you may wish to contact the retirement system to obtain cost estimates under the current formula as well as under the full actuarial cost formula as the change would make the cost of out-of-state teaching service more expensive for some and less expensive for others. On and after July 1, 2005, out-of-state teaching service will no longer be purchasable under the current cost formula.

One-time Opportunity to Change from an Optional Retirement Plan to KTRS

University and community college employees are provided a one-time opportunity during their lifetimes to change from an optional retirement plan to KTRS as long as they are they are otherwise eligible to participate in KTRS.

Miscellaneous Provisions

There are several miscellaneous provisions in House Bill 434 in addition to those discussed above. For example, purchases of non-current leaves of absence are expanded to permit purchases for leaves of absence taken not only for reasons of personal health, but also the health of a child, spouse or parent as described in the Family Medical Leave Act. Another provision will increase some retired members' Daily Wage Thresholds by applying Cost of Living Adjustments to their last annual compensation whenever it was earned, not just from their retirement date forward.

Purchases of Federal Head Start Service

The cost of federal Head Start service will change from full actuarial cost to the cost charged members to purchase out-of-state teaching service. This provision will become effective July 13, 2004. For some members, this will make federal Head Start service purchasable at a lower cost under

the current out-of-state teaching service formula (for some this could increase the cost of federal Head Start service). Accordingly, it is very important for members who are considering purchasing federal Head Start service to contact the retirement system and compare costs. It is important to note, however, that out-of-state teaching service, and, correspondingly, federal Head Start service, will change to full actuarial cost on July 1, 2005. Therefore, if you have federal Head Start service you may wish to contact the retirement system to obtain an estimate of the cost of purchasing this service under the current out-of-state teaching formula that will be available only during a limited time from approximately July 13, 2004 through June 30, 2005. It is also important to remember that tax-deferred monies cannot be used to purchase service credit purchasable at less than full actuarial cost. This can be an important factor in determining when you may want to purchase your federal Head Start service.

Service Credit for Made Up Instructional Time

New legislation provides that school districts that add days or instructional time to make up for school days missed for reasons of emergency shall count those days or time toward the required 185-day contract and those additional days or time shall also be accredited with service credit for retirement purposes. Such plans to make up missed days must meet all state and local school requirements. This legislation became effective on April 7, 2004.

Notice

This newsletter provides only a summary of some of the more significant provisions enacted during the 2004 General Session and is intended for general informational purposes only. This summary does not contain all of the terms and detail of the actual legislation enacted by the General Assembly. Final, official codification of this newly enacted legislation is still several months away.

*****ATTENTION*****

At the time of the printing of this newsletter, the General Assembly had not agreed on a budget for the 2004-06 biennium. The adoption of the budget, whether by Special Session or Regular Session, could change the current status of legislation as set forth in this newsletter. Any material changes affecting the retirement system as a result of the adoption of a budget will be reported in subsequent newsletters.

ATTENTION

Do You Have Out-of-State Teaching or Federal Head Start Service?

Out-of-state teaching service costs will change to full actuarial cost effective July 1, 2005. If you have out-of-state teaching service, you may wish to contact the retirement system to compare the cost under the current formula as compared with the full actuarial cost formula. The cost will increase for some members when it changes to full actuarial cost on July 1, 2005. Federal Head Start service will be purchasable only under the current out-of-state teaching service formula from July 13, 2004 through June 30, 2005. For some members, the cost will be less under this formula than under the full actuarial cost formula (for some members it will be more). After June 30, 2005, federal Head Start service will be purchasable only at full actuarial cost. Remember, tax-deferred monies cannot be used to purchase service credit that is purchasable at less than full actuarial cost. This could be an important factor in determining when you want to purchase your out-of-state teaching or federal Head Start service. Contact KTRS for details.

KENTUCKY TEACHERS' RETIREMENT SYSTEM MID-CAREER PLANNING WORKSHOPS

REGISTRATION
9:00 A.M. (Local Time)

SEMINAR
9:05 A.M.-Noon (Local Time)

June 14, 2004

Kentucky Dam Village SRP
Village Green Meeting Rm
166 Upper Village Drive
Gilbertsville, Kentucky

June 15, 2004

Rough River SRP
Lodge Meeting Room
450 Lodge Road
Falls of Rough, Kentucky

June 22, 2004

Natural Bridge SRP
Private Dining Room
2135 Natural Bridge Road
Slade, Kentucky

July 13, 2004

Pine Mountain SRP
Azalea Room
1050 State Park Rd
Pineville, Kentucky

KENTUCKY TEACHERS' RETIREMENT SYSTEM PRE-RETIREMENT SEMINARS

REGISTRATION
9:00 A.M. - 9:15 A.M.
(Local Time)

SEMINAR
9:15 A.M. - 1:00 P.M.
(Local Time)

You are invited to attend if you are minimum one year to five years maximum from retirement.

June 23, 2004

KTRS
Next door to the main
building-ground floor
477 Versailles Rd
Frankfort, Kentucky

July 13, 2004

My Old Kentucky Home SP
Visitor's Center
Great Hall
US 150
Bardstown, Kentucky

July 14, 2004

KY Dam Village SRP
In the Convention Center
Exit 27 off I-24
US 641 & US 62
Gilbertsville, Kentucky

July 15, 2004

KTRS
Next door to the main
building-ground floor
477 Versailles Rd
Frankfort, Kentucky

July 21, 2004

Natural Bridge SRP
In the Activity Center
2135 Natural Bridge RD
Slade, Kentucky

July 22, 2004

Pennyrile Forest SRP
Multi-Purpose Facility
20781 Pennyrile Lodge RD
Dawson Springs, Kentucky

KTRS SEMINAR OR WORKSHOP PRE-REGISTRATION FORM

Pre-registration for all seminars is **NECESSARY** and offered on a first come, first served basis. Individual retirement estimates will **NOT** be available at these workshops/seminars. **Return this pre-registration form to KTRS or pre-register on-line at: www.ktrs.ky.gov**

This Pre-Registration is for:

☐

Mid-Career
Workshop

or

☐

Pre-Retirement
Seminar

Name _____ Social Security Number _____ - _____ - _____

Address _____

City/State _____ ZIP Code _____

Name of Employer _____

Home Phone: (_____) _____ Work Phone: (_____) _____

Date of Workshop attending: _____ City of Workshop attending: _____

**** Guests are welcome if seating is available. Priority is given to KTRS Members****

Please return completed registration form to:

Kentucky Teachers' Retirement System ♦ 479 Versailles Road ♦ Frankfort, KY 40601-3800

Important Information for Year 2004 Retirees

The following answers are provided to help with often-asked questions pertaining to retirement.

Q: If I am planning to retire this year, what should I do in preparation?

A: There are certain steps that you should be aware of to ensure a successful retirement. Application forms must be requested from the KTRS office in Frankfort. It is called a Form 23 - Application for Service Retirement and is available only from the KTRS office. You will be required to submit copies of your Social Security card and the official, certified birth certificate when you submit your retirement application. A copy of your official certified marriage license is required if married. Also, if you select a payment option that provides a lifetime benefit to a surviving beneficiary, you will need to provide a copy of the beneficiary's official, certified birth certificate.

Q: Does my employer need to complete any part of my retirement application?

A: YES. Sections VII and VIII need to be completed by your employer in order to finalize your retirement application. Please allow sufficient time for your employer to complete these sections.

Q: What is the deadline to file for retirement?

A: June and July retirement applications must be received in the KTRS office no later than June 1, 2004.

Q: When will I receive my first check?

A: To be eligible for the June effective date, retiring members must complete their employment contract and resign from their position by May 31st. A one-month service credit reduction will occur for June retirements. June 1st retirees will receive their first annuity payment by direct deposit on June 28th. July 1st retirees will receive their first annuity payment by direct deposit on July 29th. Please be reminded that as a result of 1998 legislation, all retirement payments must be sent by Electronic Funds Transfer (EFT). Section IV of the retirement application requires you to supply your financial institution information and attach your voided or cancelled check.

Q: If I am retiring this year, when will my medical insurance become effective through KTRS?

A: Your medical insurance will be effective through KTRS on the 1st day of the month FOLLOWING the month your retirement is effective.

Q: I am a non-university member retiring this year with over 30 years of KTRS service, what is the earliest date I can apply for my retirement and receive the benefit of the 3.0% multiplier factor?

A: July 1, 2004 is the earliest date you can apply and be approved for the 3.0% factor. The Board of Trustees approved for non-university members, who initially retire on or after July 1, 2004, a retirement allowance factor of 3.0% of the member's final average salary for years or fractional years of qualified service in excess of thirty (30) years that were earned from KTRS covered employment.

Your Retirement Filing Checklist

- ☐ Your retirement application (Form 23)
(must be completed and signed by you and your employer).
- ☐ A copy of your official certified birth certificate.
- ☐ A copy of your Social Security card
(issued by the SSA and bearing its seal and your signature).
- ☐ A copy of your official certified marriage license *(if married at the time of your retirement)*
- ☐ A copy of your beneficiary's official certified birth certificate
- (if Retirement Option III, IIIA, IV or IVA is selected).
- ☐ You should submit payment for any service credit purchase two months prior to your retirement. *(If you are qualifying out-of-state service or purchasing non-standard service to retire, the retirement system will calculate the amount due and notify you in writing upon receipt of your completed application.)*

Uniformed Services Employment and Reemployment Rights Act (USERRA)

The Uniformed Services Employment and Reemployment Rights Act (USERRA) is a federal statute that was enacted into law in 1994 as a result, in part, of Operation Desert Storm. USERRA provides certain reemployment rights for employees who are called away from their jobs into active military service. This federal act has retirement implications as well.

Generally, under USERRA members of KTRS who are called away from KTRS-covered jobs into active military service and then return to those jobs after their military service is concluded are to be treated for retirement purposes as though they never left. There are several conditions to this right, however, including the requirement that members must return to their KTRS-covered jobs within a specified period of time that will vary depending on how long they were away on service. Members must also make up member contributions for the period of time that they were away on service, but will have up to three times the length of service that they were away, not to exceed five years, by which to make these contributions. The employer is responsible for the

employer contribution and will be billed for all accrued interest as well. Contributions will be based upon the salary that members would have earned during the time that they were away.

USERRA contains many provisions, not all of them retirement-related, which cannot be adequately addressed in this newsletter. Furthermore, USERRA provisions are subject to federal amendment and interpretation. Accordingly, you should contact the federal authorities charged with the administration of USERRA if you have any questions regarding its application to your individual circumstances. The National Committee for Employer Support of the Guard and Reserves ("ESGR") maintains a USERRA website at www.esgr.org or you may wish to contact the ESGR ombudsman who can be reached toll free at (800) 336-4590 for further detail. More complex issues will probably be referred by ESGR to the United States Department of Labor. Your commanding officer may also be able to provide you with some helpful information.

Timely Reminders to Deadlines for Purchasing 2003-04 Service Credit

Members who had unpaid contract days in the 2003/2004 fiscal year should contact KTRS about their eligibility to obtain full service and/or salary credit. **The deadline for purchasing this type of credit is December 31, 2004.** *

Members granted leaves of absence in 2003/2004 should contact KTRS about recovering this credit. **The deadline for this type of purchase is June 30, 2005.**

** Appropriate forms can be obtained on the KTRS web site or from your employer.*

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U.S. POSTAGE
PAID
Frankfort, KY
Permit No. 730

TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY
479 Versailles Road
Frankfort, Kentucky 40601-3800
APR/MAY 04

